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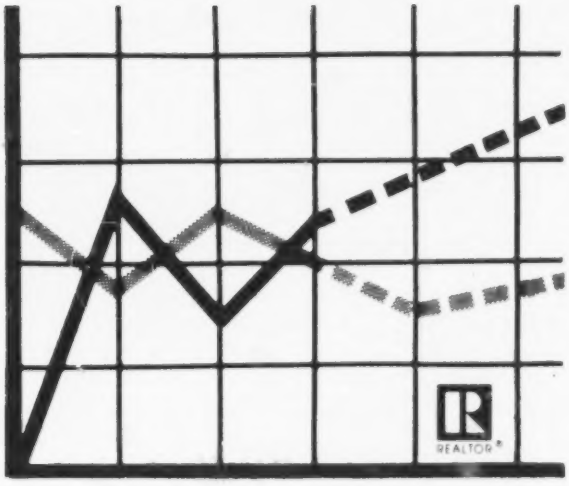
OUTLOOK FOR THE ECONOMY AND RESIDENTIAL, COMMERCIAL, AND INDUSTRIAL REAL ESTATE



BY

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October 1979

OUTLOOK FOR THE ECONOMY AND RESIDENTIAL, COMMERCIAL, AND INDUSTRIAL REAL ESTATE

U.S. Output, Unemployment, and Inflation

Signs of recession are evident. Consumer spending has slowed, indicating that American families are tightening their purse strings. Lower sales mean lower production which in turn means more job lay-offs in the months ahead. Unemployment is increasing and can be expected to exceed 7 percent during 1980. Average incomes will suffer until improvement next spring.

In the midst of the current recession, inflation continues high with consumer prices rising a record 13 percent so far during 1979. Since spring higher imported energy prices are causing necessities such as transportation from home to work and the heating of homes to increase much faster than income. All consumer prices are likely to continue to rise at double-digit rates during the next six months until government inflationary policies are changed. Nearly two-thirds of the accelerating inflation during the last three years has been caused by excessive federal spending and resulting deficits, inflationary growth of money supply and large increase in federal regulations and policies that require large increases in costs and prices. About one third can be attributed to OPEC crude oil price increases.

The Federal Reserve Board is attempting to cover ground lost during 1977 through 1979. The tardy and abrupt changes in monetary policy have caused both short and long-run interest rates to reach record and unexpected levels. Unless the federal government slows down spending and lowers inflation to reduce the federal deficits, which appear somewhat unlikely, the Federal Reserve Board is likely to fight inflation alone and require short-run interest rates to increase during the next few months and then decline modestly and long-run rates to remain at high levels during the remainder of 1979 and all of 1980.

Residential Real Estate

Home prices continue to escalate with average increases of 14 to 16 percent, about one-third faster than price increases of all consumer purchases. Home price increases with slower growth of typical household incomes are making it difficult to afford adequate housing for a growing number of Americans. In July of last year, the typical monthly payment for principal and average interest of 9 3/4 percent on a median priced home of $49,400 was $382 compared to payments of $506 on a median priced home of $57,900 in July of this year at an average interest rate of 11 1/4 percent. This marks an increase of 32 percent over the 12 month period. Some American families are having to settle for more modest housing than they had hoped to buy and some have had to postpone their purchase altogether.

Housing starts have declined by 14 percent or a seven times greater decline than other producing sectors in the economy. Housing starts may decline 10 percent more to 1.6 million units during the opening months of 1980 before rising above 1.9 million units by the last quarter of 1980. The decline will likely be modest compared to the 60 percent decline during the last recession in 1975. This fall off in housing production is occurring at a time when our nation needs to construct a minimum of two million units during both 1979 and 1980 and each year thereafter to keep pace with demand. The current production slowdown will create a shortage of housing for both young and older households and thus add to inflationary pressures on home prices. The housing shortage will increase by one-quarter million in 1979 and one-quarter million in 1980 or by one-half million units by the end of 1980. It will take five years of near capacity production before the shortfall in housing can be made up.

While too few new homes are being built, Americans are buying and selling existing homes to better satisfy their changing needs. Existing homes have been selling at a 3.7 million annual rate so far this year and could finish the year only 5 percent off the record volume during 1978, making 1979 the second best year in U.S. history. Only a modest decline in sales is likely during the remainder of 1979 and then improvement can be expected during 1980.

Commercial and Industrial Real Estate

Investment in commercial and industrial real estate is slowing down and can be expected to decline through 1980, a 2.2 percent decline for commercial and a 4.0 percent decline for industrial. However, the decline should be modest when compared with the last recession and may not disrupt the market for investment real estate in many communities across the country. The decline in outlays for industrial plant and office buildings is tied with the decline in industrial production through next summer, the lower capacity utilization of existing facilities through the end of 1980, the continued decline in real profits from current production or profits per unit of output, and the increase in federal corporate tax rates on profits from current production.

Failure to adjust for inflated inventories (IVA) and inadequate capital cost recovery (CCA) has greatly overstated profits and thus the incentive and capability to invest. While unadjusted profits after taxes appear to have risen from three to four percent of all goods and services produced in one year (GNP) in 1970-72 to five to six percent in 1976-79, the exact opposite has occurred and adjusted profits or profits from current production have actually declined and are now three to four percent of GNP and are forecast to decline around three percent during 1980. The decade of the 1970's has produced the lowest level of profits from current production since these statistics have been collected (see Chart 1). Corporate profits tax rates have climbed to 55 percent and have averaged above 50 percent during the 1970's, much higher than during the previous 20 years (see Chart 2). If more adequate commercial and industrial investment is to occur, the government must reverse policies that discourage savings and investment by enacting tax relief such as in the form of lower taxes on savings and more adequate depreciation allowances.

Chart 1

GROSS PROFITS AFTER TAXES
AND PROFITS FROM CURRENT PRODUCTION
AS A PERCENT OF GNP

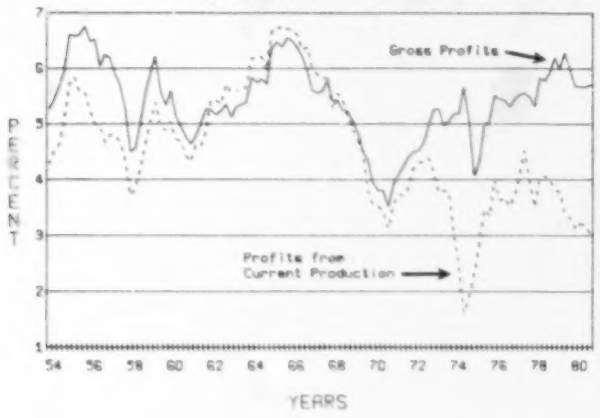
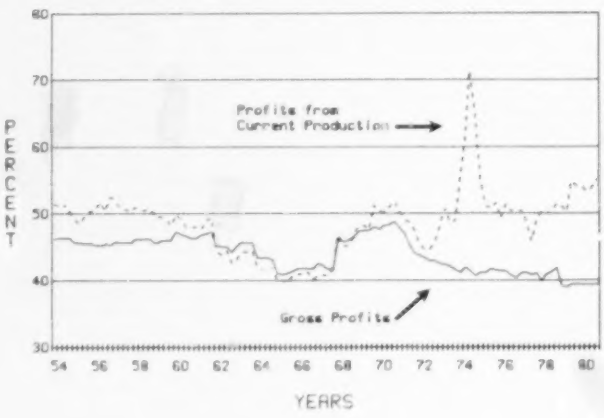


Chart 2

CORPORATE PROFIT TAXES AS A PERCENT OF
GROSS PROFITS AND
PROFITS FROM CURRENT PRODUCTION



OUTLOOK FOR THE U.S. ECONOMY AND REAL ESTATE

OCTOBER 1979

	QUARTERS								YEARS		
	Actual		Forecast						Actual	Forecast	
	79:1	79:2	79:3	79:4	80:1	80:2	80:3	80:4	1978	1979	1980
AGGREGATE ECONOMY											
Gross National Product (billions of dollars)	2,292	2,330	2,389	2,430	2,470	2,533	2,606	2,688	2,128	2,360	2,574
Percent Change	10.6	6.7	10.6	7.0	6.7	10.6	12.2	13.1	12.0	10.9	9.1
Percent Change (without Inflation)	1.1	-2.3	0.5	-2.5	-1.8	1.7	3.0	3.3	4.4	1.7	-0.1
Consumption	0.6	-2.9	1.5	0.3	-0.1	0.7	3.0	2.2	4.5	2.0	0.7
Residential Investment	-14.5	-6.8	-4.4	-12.9	-7.8	0.1	13.1	12.5	4.2	-6.6	-3.3
Nonresidential Investment	4.8	-0.8	1.6	0.1	-2.6	-1.4	0.7	3.3	8.4	5.1	-0.5
Structures	-5.6	19.2	2.8	0.2	-3.7	-3.5	-0.6	2.1	12.2	8.3	-0.1
Equipment	10.1	-8.9	1.0	0.1	-2.1	-0.4	1.3	3.8	6.7	3.7	-0.7
Exports	11.7	-3.4	6.8	3.1	2.5	2.5	3.5	5.4	10.6	7.8	3.0
Imports	-3.9	12.1	-3.3	1.4	0.2	0.3	1.2	5.8	11.1	4.0	1.2
Government Purchases	-1.9	-3.3	-1.3	2.7	1.6	1.6	1.3	1.6	1.8	-0.1	1.1
Residential Investment (percent of GNP)	4.0	4.0	3.9	3.8	3.8	3.8	3.8	3.9	4.3	3.9	3.8
Nonresidential Structures Investment (percent of GNP)	3.2	3.4	3.4	3.4	3.4	3.3	3.3	3.3	3.1	3.3	3.3
Inventory Change (billions of dollars)	19.1	33.4	26.2	8.6	-1.8	6.0	4.4	9.6	22.3	21.8	4.1
Mfg. Capacity Utilization Rate (%)	87	86	85	83	81	81	81	81	84	85	81
Manufacturing Industrial Production (percent change)	4.6	-1.0	-2.6	-7.0	-4.7	-0.3	2.9	6.9	6.1	3.5	-2.2
Productivity (percent change)	-3.0	-4.0	-0.8	0.6	-0.7	2.1	1.8	2.5	1.1	-0.9	0.3
Employment (millions)	96.6	96.4	96.8	96.7	96.6	96.6	96.8	97.0	94.4	96.6	96.8
Unemployment Rate (percent)	5.7	5.7	6.0	6.4	6.7	7.1	7.3	7.5	6.0	6.0	7.1
Real Personal Income (% change)	0.6	-0.3	-0.3	0.0	-0.8	1.5	4.4	3.9	5.0	2.4	0.8
Median Family Income	17,950	18,300	18,721	19,108	19,426	19,724	20,048	20,369	17,200	18,520	19,892
Producers Price Inflation (WPI)	14.6	13.1	11.7	10.8	9.5	9.6	10.1	10.8	7.8	12.0	10.9
Consumer Price Inflation (CPI)	11.1	13.6	13.6	12.4	10.0	9.3	9.0	8.4	7.7	11.3	10.7
Gross National Product Inflation (GNP Deflator)	9.3	9.3	10.1	9.8	8.8	8.7	8.9	9.5	7.3	9.1	9.2
Residential Construction Inflation	6.8	14.2	11.7	10.7	10.1	10.5	11.4	12.1	13.1	12.3	11.0
Nonresidential Construction Inflation	8.6	8.5	10.0	10.7	10.1	10.3	10.6	11.1	8.8	10.1	10.3
Compensation per Manhour (percent change)	10.7	7.8	8.3	10.4	10.9	10.4	11.0	10.9	9.3	9.2	10.2
NEW CONSTRUCTION PUT IN PLACE (Percent Change, Adjusted for Inflation)											
Total Private Nonresidential	-5.9	39.5	5.7	-10.7	-9.5	-11.1	-5.5	-3.4	15.8	12.6	-4.9
Commercial	-14.1	72.3	8.6	-9.4	-6.6	-9.2	-7.2	-2.6	15.4	13.2	-2.2
Industrial	11.5	10.6	5.3	-1.9	-7.0	-10.7	-4.3	-8.2	29.6	22.3	-4.0
Nonprofit Institutions	-11.7	16.0	-2.5	-30.7	-24.1	-18.7	-2.1	5.2	-0.[illegible]	-4.8	-15.7
GOVERNMENT (Billions of Dollars, NIA)											
Federal Tax Receipts	475	486	502	506	514	526	543	563	432	492	536
Federal Expenditures	487	493	514	536	548	562	583	601	460	507	574
Surplus or Deficit	-12	-7	-12	-30	-34	-36	-40	-38	-28	-15	-37
HOUSING MARKETS (Thousands of Units)											
Existing Single-Family Home Sales	3,660	3,727	3,815	3,641	3,712	3,898	3,986	4,186	3,905	3,711	3,945
Percent Change - Year Ago	-0.8	-3.2	-3.6	-11.6	1.4	4.6	4.4	15.0	9.3	-4.9	6.3
New Single-Family Home Sales	752	709	682	640	658	682	723	788	817	695	713
Percent Change - Year Ago	-5.8	-15.0	-14.9	-23.4	-12.4	-3.8	6.1	23.1	-0.5	-14.9	2.5
Private Housing Starts	1,615	1,834	1,767	1,657	1,603	1,693	1,844	1,966	2,020	1,718	1,776
Single-Family	1,119	1,264	1,209	1,102	1,088	1,158	1,284	1,384	1,433	1,174	1,228
Multi-Family	496	570	558	555	515	535	560	580	587	545	548
Mobile Home Shipments	284	274	270	260	239	242	238	237	278	272	239
Housing Inventory (millions)	82.4	82.6	82.9	83.3	83.5	83.8	84.1	84.4	81.6	82.8	83.9
Rental Vacancy Rate (percent)	4.8	5.0	4.9	4.9	4.8	4.8	4.7	4.8	5.0	4.9	4.8
HOUSING PRICES (Thousands of Dollars)											
Median Price - Existing Homes	52.6	55.8	57.8	58.2	59.4	61.8	63.7	64.9	48.7	56.1	62.5
Percent Change - Year Ago	14.0	15.9	15.6	15.2	13.0	10.8	9.8	11.5	13.5	15.3	11.2
Median Price - New Homes	60.7	62.5	64.9	67.1	68.3	70.0	71.9	75.1	55.7	63.8	71.3
Percent Change - Year Ago	14.7	14.5	14.2	14.1	12.5	11.8	10.8	11.9	13.9	14.4	11.7
Dollar Value - Existing Homes Sold (billions)	220.9	239.5	255.7	245.9	256.4	280.1	294.3	314.7	216.7	240.5	286.4
FINANCIAL MARKETS (Billions of Dollars)											
Total Time and Savings Deposits	1,199	1,210	1,232	1,251	1,268	1,285	1,307	1,336	1,125	1,223	1,299
Percent Change	9.3	3.9	7.4	6.4	5.6	5.3	7.0	9.3	11.7	8.7	6.2
Savings Rate (percent)	5.0	5.4	4.9	4.8	4.8	5.0	5.3	5.6	4.9	5.0	5.2
New Mortgage Commitments	124.4	135.6	129.0	122.3	115.8	114.7	126.2	139.6	135.3	127.8	124.0
Mortgage Debt Outstanding	1,205	1,234	1,266	1,294	1,315	1,336	1,360	1,388	1,113	1,250	1,350
1-4 Family	784	808	837	863	889	916	943	971	720	823	930
Money Supply (M2) (% change)	1.8	8.9	12.1	6.5	3.9	2.9	4.4	7.0	8.6	7.3	5.7
INTEREST RATES (Percent)											
Existing Home Mortgages	10.40	10.62	11.06	11.11	11.30	11.02	10.87	10.61	9.58	10.80	10.95
New Home Mortgages	10.23	10.50	11.00	11.08	11.30	11.07	10.88	10.76	9.54	10.70	11.00
S&L Deposits	6.92	7.07	7.29	7.33	7.22	7.21	7.24	7.29	6.51	7.15	7.24
AAA Corporate Bonds	9.29	9.39	9.30	9.51	9.67	9.46	9.40	9.39	8.72	9.37	9.43
Prime Commercial Paper	10.10	9.85	10.56	11.26	10.66	10.19	9.56	9.20	7.99	10.44	9.90
Federal Funds	10.07	10.18	11.02	11.60	11.18	10.71	9.86	9.34	7.93	10.72	10.27
CORPORATE PROFITS (Billions of Dollars)											
Before Tax Profits	233	228	247	240	231	236	244	253	206	237	241
Corporate Tax Liability	91	89	97	95	91	93	96	99	85	93	95
After Tax Profits	142	139	150	145	140	143	148	153	122	144	146
Inventory Valuation Adjustment	-40	-37	-53	-45	-41	-37	-38	-41	-25	-44	-39
Capital Consumption Adjustment	-15	-15	-17	-19	-22	-25	-28	-31	-13	-16	-27
Profits from Current Production	88	88	81	81	77	82	82	82	83	84	81
Adjusted for Inflation	88	86	77	75	71	73	72	70	88	81	71
Percent Change	-16.8	-6.8	-36.1	-9.0	-21.9	14.2	-4.9	-11.7	0.2	-6.9	-12.3
Per Unit of Output (percent of GNP)	3.8	3.8	3.4	3.3	3.1	3.2	3.2	3.0	3.9	3.6	3.1

Source: Model developed by the Economics and Research Division, NATIONAL ASSOCIATION OF REALTORS®, and Data Resources, Inc.
Assumptions by Dr. Jack Carlson, Robert Boley, Kenneth Kerin, Frank Katusak, and Glenn Crellin.